Why Barking deal on affordable homes is not what it seems

16 September 2016 by Joey Gardiner - Planning Resource

A deal struck by London Mayor Sadiq Khan to hike affordable housing provision at Barking Riverside involves the loss of all social rented units from the scheme and the provision of tens of millions of pounds of public housing grant, it has emerged.

Earlier this month, London Mayor Sadiq Khan announced that he had approved a revised masterplan for 10,800 homes at Barking Riverside, on which he had increased the affordable housing quotient achieved on the site.

The mayor's press release said that under previous mayor Boris Johnson the plans had included only 28 per cent affordable housing, adding that Khan had increased this to 35 per cent, rising to 50 per cent if viability allows. It led some publications to conclude that the mayor – who made a high profile pledge to achieve 50 per cent affordable housing across the capital in his election campaign – had doubled the affordable housing provision on this tricky former power station site.

Located away from Barking town centre and owned in a joint venture between the Greater London Authority and housing association L&Q, the site has been the focus of regeneration efforts for well over a decade, with the existing masterplan approval dating from 2007. To date only 734 homes have been built on it, despite detailed approvals for 3,285 homes and confirmed funding for a rail link connecting it to Gospel Oak.

Under the revised deal announced by Khan, achieving more than 35 per cent affordable provision on the site will be dependent on the results of viability assessments of future detailed applications. A requirement for more affordable homes will be triggered if the joint venture's anticipated profit (known as an Internal Rate of Return or IRR) on a phase rises above 12 per cent. In effect, accepting an IRR this low is a form of public subsidy: a private developer would usually argue in viability assessments that an IRR of at least 20 per cent is necessary to make a scheme viable.

Although it is not mentioned in the press release, even the provision of 35 per cent affordable housing is only achievable because Khan has allocated £75 million of public housing grant to support the scheme. Roger Hepher, founding director of consultancy Hepher Grincell Planning, said: "This sends a message that Khan is serious about affordable housing, and he's prepared to use public resources to make it work."

But a more in depth look reveals that the deal secured by Khan is not quite as impressive as it may first appear. The previous masterplan for the site did not, as implied, require only 28 per cent affordable housing; it required 41 per cent of habitable rooms to be affordable, which equates to 33 per cent of units. The planning documents say that this is "broadly equivalent" to the quantum in the new deal. The 28 per cent figure actually refers to the initial offer made on the new application that was submitted to the previous mayor.

The previous masterplan had required half of all affordable homes to be provided at the cheapest "social rent" level, whereas the new deal contains no social rented homes at all - in a move that is contrary to the London Plan, though it does require five per cent of units to be more expensive "affordable rent" homes. The rest of the affordable homes will comprise units available through different types of low cost home ownership schemes, which can only be accessed by people with stable, mid-range incomes.

While the government no longer funds new social rented homes, many councils still insist on them being provided on private sites via cross-subsidy from the homes for private sale. Jerry Flynn of the 35% Campaign, which has highlighted the loss of affordable housing due to viability assessments, said the new deal was a "lost opportunity to provide those most in need of affordable housing in London with the chance of a new home." He said: "This is all the more disappointing as it appears this is a publicly-owned scheme."

This reality underlines the stark choice facing Khan in the current economic environment, even on publicly-owned sites where he has a measure of control. National House Building Council figures show that housing starts in London fell 62 per cent on last year in the three months to August, something Khan may be keen not to exacerbate by imposing expensive affordable goals.